

Singapore Property

No significant boost expected from recent easing

SINGAPORE | REAL ESTATE (DEVELOPERS) | UPDATE

What is the news?

The Monetary Authority of Singapore (MAS) has announced changes in measures regarding the purchase and sale of properties in Singapore. These measures will be effective from 11 March 2017 and include:

1. TDSR no longer apply to mortgage equity withdrawal loans with an LTV ratio of 50 percent and below

What is the new rule? From 11 March 2017, MAS has revised the TDSR framework and it will no longer apply to homebuyers with mortgage equity withdrawal loans with an LTV ratio of 50 percent and below. According to MAS, the revision came from feedback of existing homeowners stating that the current TDSR framework has limited their flexibility to monetise their properties in their retirement years.

What do we think? There is no change to the current 60% TDSR framework which will continue to apply to homebuyers. We are of the view that the change mainly benefits existing private home owners (HDB flat owners do not qualify for mortgage equity loans) who intend to monetise their homes. While homeowners may have greater access to cash by taking up home equity loans, it is unlikely for them to use this free-up cash to purchase new homes since they will still be subjected to the series of property cooling measures i.e. Additional Buyer's Stamp Duty (ABSD) and 60% TDSR framework. Additionally, we opine that there is not much debt headroom for Singapore households to lever up, considering that the current mortgage-to-private residential assets ratio of Singapore households currently stands at 43% as at 2016 according to a statistic by SingStat. Consequently, we do not expect this change to fuel demand for home purchases.

2. SSD rate reduced to 12 percent from 16 percent; Duration shortened to three years from four years

What is the new rule? MAS has reduced the rate of SSD payable to 4 percent to 12 percent. The duration on SSD payable has also been reduced to three years from four years. Previously, a homeowner will incur SSD which is payable at rates between 4% and 16% if they intend to sell a residential property within four years of purchase.

What do we think? Although more homeowners may be enticed to sell their homes, we view that the easing in SSD is unlikely to significantly boost transaction volumes as it remains status-quo from a homebuyer's angle. That is, a homebuyer is still subjected to the existing set of property cooling measures. In general, since most homebuyers are Singaporeans and PRs, and own at least one property, they are subjected to incur ABSD on subsequent home purchases.

Investment Action

We view that the two recent ease in measures are unlikely to significantly boost sales in private housing units. As mentioned in a [previous report dated 3 October 2016](#), we reiterate our view that the two most binding property cooling measures are the 60 percent TDSR framework and ABSD. It is only through the easing of these two property cooling measures could there be a meaningful boost in take-up rates. We do not rule out further unwinding of property cooling measures in 2H17. However, as transaction volume continues to remain healthy, we opine that the earliest time for two aforementioned property cooling measures to be unwound could happen in 2018 in view of the peaking supply between 2017 and 2018, as well as the rising interest rate environment. As such, we are maintaining the discount rates to our RNAV estimates under our coverage of Singapore developers. We have upgraded our sector weighting to 'Neutral'.

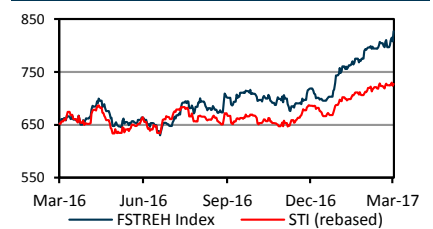
13 March 2017

Equal Weight

INDEX PERFORMANCE (%)

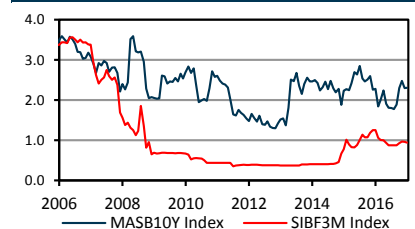
	1MTH	3MTH	1YR
FSTREH RETURN	6.2	12.1	9.4
STI RETURN	2.0	5.1	7.6

FSTREH VS. STI



Source: Bloomberg, PSR

3-month Sibor (%) & 10-year SGS (%)



Source: Bloomberg, PSR

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3. New Stamp Duty for buyers and sellers of equity interest in property holding entities

What is the new rule? Stamp duties will be implemented on the transfer of equity interest in entities whose primary tangible assets are residential properties in Singapore. This is aimed at treating transactions in residential properties on the same basis irrespective of whether the properties are transacted directly or through a transfer of equity interest in an entity holding residential properties. Thereafter, significant owners of residential property-holding entities will be subject to the usual stamp duties when they transfer equity interest in such entities, similar to what would happen if they were to buy or sell the properties directly.

What do we think? This closes the stamp duty loophole that corporate and institutional investors have been utilizing in recent years using bulk sales to escape QC or ABSD charges. Though this impedes the ease of conducting bulk sales, we do not see the likelihood of the developers under our coverage needing to explore bulk sales to minimize or avoid ABSD or QC charges in the near term.

Recovering transaction volumes in the past two years minimises possibility of further unwinding of cooling measures; ABSD and TDSR Framework

While selected projects have suffered from lackluster sales, as a whole, transaction volumes remain on a recovery mode with total number of residential properties sold slowly rebounding after the sharp 40% and 44% drop in 2013 and 2014 following the implementation of the harsher ABSD and 60% TDSR framework. Total transactions increased 11% and 16% in 2015 and 2016, albeit from a low base of 12,723 in 2014.

Figure 1: No of private properties sold

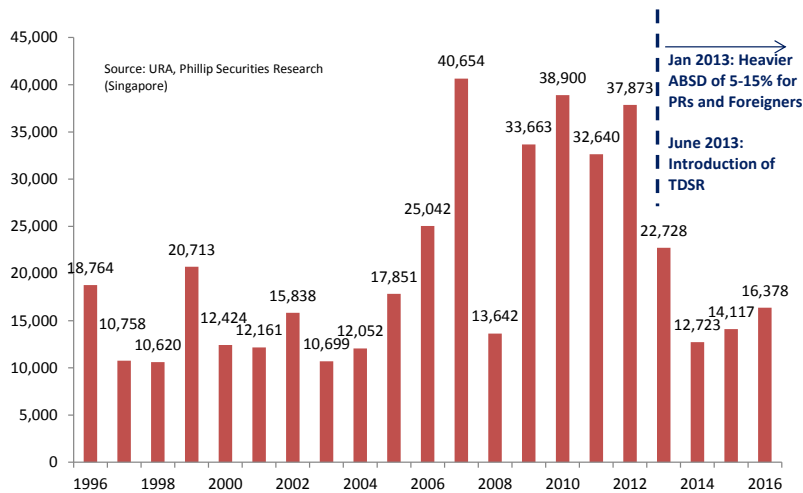
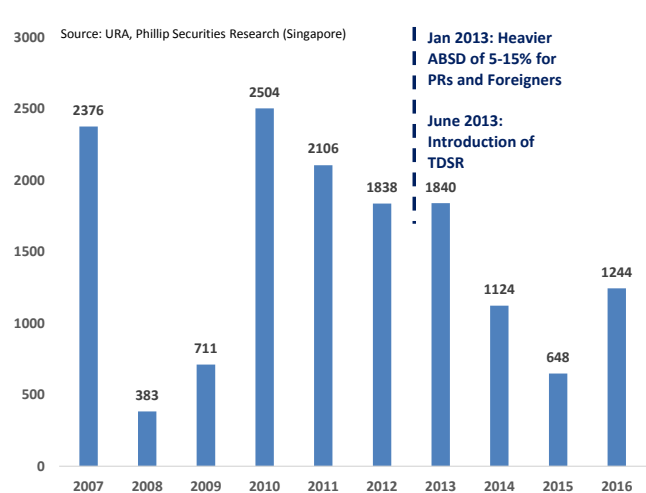


Figure 2: No of high end private properties sold (>\$2,000 PSF)



Companies under coverage that are affected

Name	PSR Rating	Discount to RNAV (%)	Mkt Cap (SGD mn)	Last Px (SGD)	Target Price	% Upside	Chg Pct YTD	ROE	Dvd 12M Yld	P/B	Debt/Assets
CITY DEVELOPMENTS LTD	ACCUMULATE	20	9,220	10.14	10.4	2.6%	22.58	6.09	1.58	0.99	28.98
UOL GROUP LTD	ACCUMULATE	20	5,544	6.89	7.4	7.4%	15.53	3.78	2.17	0.68	20.85
HO BEE LAND LTD	ACCUMULATE	30	1,564	2.35	2.64	12.3%	15.76	4.54	2.98	0.53	30.62
CHIP ENG SENG	ACCUMULATE	50	469	0.76	0.87	15.2%	19.05	4.70	5.33	0.61	52.45
CAPITALAND			15,714	3.70			22.52	5.36	2.43	0.89	32.47
FRASERS CENTREPOINT			5,027	1.73			9.84	8.05	4.97	0.73	40.47
UIC			4,243	2.99			7.94	4.69	1.00	0.68	14.40
WING TAI			1,497	1.94			21.70	0.09	3.10	0.47	27.66
WHEELOK PROPERTIES			2,250	1.88			27.03	3.38	3.19	0.75	0.00
GUOCOLAND			2,236	1.89			5.00	3.18	4.76	0.64	48.44

Source: Bloomberg, Phillip Securities Research (Singapore)

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